

MINORITY VIEWS

Committee Print of Amendments to the Higher Education Act on the Committee's Instructions pursuant to the Conference Report on H. Con. Res. 95, the Budget Resolution for Fiscal Year 2006

Introduction

The Republican committee print of amendments to the Higher Education Act cuts \$14.3 billion from the federal student aid programs. This Republican raid on student aid represents the largest single cut to the federal student aid programs ever. As a result of these cuts, the typical student borrower could be forced to pay an additional \$5,800 for his or her college loans.

Last year, students attending public colleges and universities fell nearly \$13 billion short when paying for college, even after adding up their savings, work, student aid, and family support. As a result, more and more students are forced to work long hours (half of all working students are working 25 or more hours per week—long enough to hurt their academic performance); take on huge debt burdens (an estimated 40 percent of student borrowers graduate with unmanageable debt); or, forgo college altogether.

The weakened economy, huge tax cuts for the super rich, and massive federal budget cuts have hurt state budgets, driving up tuition prices for students—more than 75 percent of whom attend public institutions.

According to the Congressional Advisory Committee on Student Financial Assistance, *financial barriers* will prevent 4.4 million high school graduates from attending a four-year public college over the next decade, and prevent another two million high school graduates from attending any college at all.

BUDGET CHOICE:

- **\$70 billion in tax cuts for the super rich:**

FOR EXAMPLE, OF THE TOTAL CUTS FOR CAPITAL GAINS AND DIVIDENDS:

- **MORE THAN HALF OF THESE TAX CUTS GO TO THOSE WITH ANNUAL INCOMES OVER \$1 MILLION DOLLARS (OR .2 PERCENT OF ALL HOUSEHOLDS); AND,**
- **NEARLY 80% OF THESE CUTS GO TO HOUSEHOLDS WITH ANNUAL INCOMES OVER \$200,000 (OR 3.1 PERCENT OF ALL HOUSEHOLDS).**

vs.

- **Guaranteed boost to a \$5,100 maximum Pell grant; and,**

- **Significantly lower student loan interest rates**

AT NO ADDITIONAL COST TO STUDENTS, PARENTS OR TAXPAYERS.

FORCE STUDENTS AND FAMILIES TO PAY THOUSANDS MORE FOR COLLEGE

The Raid on Student Aid will widen the college participation gap, just when we need to close the gap. Closing the current college participation gap between minority and white students could add \$250 billion to the national gross domestic product and \$85 billion in tax revenue to strengthen our economy and improve the quality of life for all Americans.

The Raid on Student Aid also undermines America's competitiveness in the global economy.

By 2020, the U.S. is expected to experience a shortage of up to 12 million college-educated workers, directly threatening the nation's ability to compete in the global economy.

The investment in increasing access to affordable higher education opportunities has been critical in making the U.S. the world economic leader it is today. Whether the U.S. retains its preeminence in the increasingly competitive global economy will depend more and more on having a highly-skilled workforce – and higher education is the critical tool for building that workforce.

Rather than boosting affordable college opportunities and investing in the economy, the Republican bill actually makes students and families pay even more for their college education.

The Republican bill cuts \$14.3 billion from the federal student aid programs. This Republican raid on student aid represents the largest single cut to the programs ever. Due to these shortcomings, we oppose the Committee passage of this legislation.

The Republican Bill Makes College More Expensive by Repealing Current Law Setting the Maximum Student Loan Interest Rate at 6.8 percent (beginning in July 2006)

In 2002, Congress passed legislation to lower the interest rates for student and parent borrowers, starting in July of 2006. Representatives Boehner and McKeon supported and voted for this legislation. This legislation ensured that student loan interest rates would not rise above 6.8 percent (today the current cap on student loan interest rates is set at 8.25 percent). It also ensured that the parent borrower interest rates would not rise above 7.9 percent (today the current cap on parent loan interest rates is set at 9.0 percent). The Republican raid on student aid goes back on these promises, and repeals the scheduled July 2006 decrease in the maximum rates to 6.8 percent for students and 7.9 percent for parents. As a result of this change alone, the typical student borrower, with \$17,500 in debt, would be forced to pay as much as \$2,600 more for his or her loans than they would under current law.

Democrats offered an amendment that would have maintained Congress' bipartisan promise to ensure that student loan interest rates do not rise above 6.8 percent and that parent loan interest rates do not rise above 7.9 percent (for all non-consolidation loans), at no additional cost to taxpayers or students. Republicans rejected this amendment.

The Republican Bill Makes Student Borrowers Pay Billions More for Consolidation Loans

While the Republican bill allows students to choose a fixed or variable interest rate on consolidation—it raises the interest rate on fixed consolidation loans by 1.0 percent (to 91-day Treasury bill + 3.3 percent, capped at 8.25 percent) and forces all student borrowers who consolidate their loans to pay a new 1.0 percent fee on fixed consolidation loans.

As a result of this change alone, the typical student borrower will have to pay \$2,800 more for his or her college loans when they consolidate, than under current law.

Democrats offered an amendment that would have allowed student borrowers to choose a fixed or variable interest rate when consolidating their loans—without raising costs to borrowers or costing taxpayers an additional dime. Republicans rejected this amendment.

According to the Congressional Budget Office analysis, just the new 1 percent tax on consolidation borrowers will cost student and parent borrowers nearly \$2 billion through 2010.

The Republican Bill Raises Student Loan Fees

While the Republican bill provides for a gradual phase out of the 3 percent origination fee charged to student and parent borrowers, it doubles the current 1.5 percent origination fee for Direct Loan borrowers in 2006. In the second year of the bill, the origination fees for Direct Loan borrowers are 1 percent higher than current practice, and in the third year, .5 percent higher than current practice.

Currently, the Secretary of Education charges a 3% origination fee and offers a 1.5% reduction in this fee to borrowers who make 12 on-time repayments on their loans—which results in a 1.5% origination fee.

While in the long run the bill reduces origination fees for borrowers in the Direct Loan program, it actually raises these fees between 2005 and 2009. As a result, Direct Loan borrowers will have to pay up to an additional \$1.2 billion more for their loans through 2010.

While we strongly support elimination of these student taxes, which Democratic members have been urging for years, we cannot support legislation that raises fees, and the cost of college, for students, before eliminating them.

The bill requires lenders to charge student and parent borrowers a 1% insurance tax on their loans. Under current law, lenders do not have to charge this fee and most lenders currently waive this tax, but the Republican bill requires student and parent borrowers to pay this tax. As a result, the typical student borrower will be forced to pay an additional \$175 for his or her college loans.

According the Congressional Budget Office analysis, the provision to force borrowers to pay the 1% insurance fee will raise nearly \$1.5 billion through 2010.

Democrats offered two amendments to lower student loan taxes, but Republicans rejected these amendments.

Eliminating Critical Borrower Benefits that Encourage On-Time Repayment and Lower Interest Rates

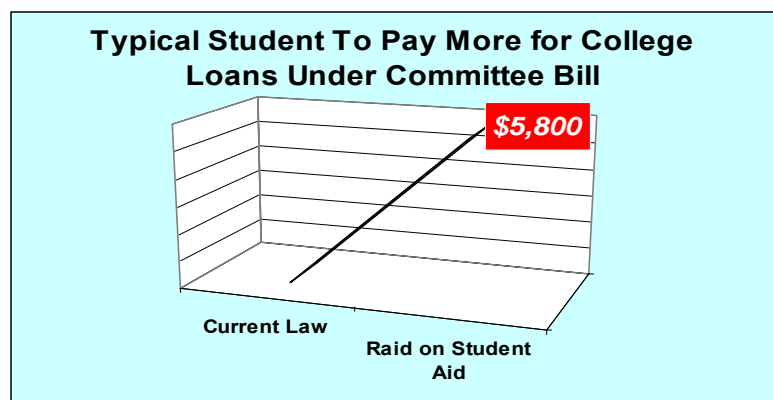
The Republican bill eliminates the Secretary of Education's authority to provide on-time repayment benefits, such as lower interest rates, to student borrowers in the Direct Loan program. *(It is through this benefit that the Secretary of Education is able to offer borrowers in the DL program a reduced 1.5% origination fee).* Yet, private banks that participate in the guaranteed loan program (also known as the Federal Family Education Loan Program) currently offer similar benefits to their student borrowers.

The Republican bill also eliminates the in-school consolidation benefit for borrowers in the Direct Loan program who are still in school to consolidate their loans at a lower interest rate (.6 percent lower) and to retain their 6 month grace period, where interest does not accrue and no payments are due.

Democrats offered an amendment to restore the on-time repayment benefit provision under current law and to allow students to consolidate their loans while in school. Republicans rejected this amendment.

The Republican Bill Forces Students and Families to Pay for New Tax Cuts for the Super Rich

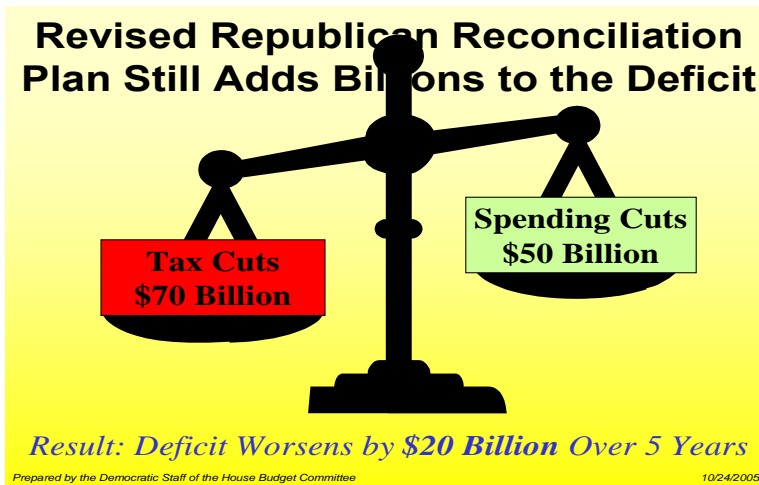
The bill saves \$14.3 billion by: raising interest rates on student consolidation loans; raising the interest rate cap on student and parent loans; raising student and parent loan fees or taxes; eliminating borrower benefits that lower the cost of borrowing; cutting critical student aid delivery funds; and, eliminating some of the excessive subsidies paid to student lenders. This Republican raid on student aid represents the single largest cuts to the nation's federal student aid programs ever. As a result of these cuts the typical student borrower could be forced to pay up to \$5,800 more for his or her college loans, than compared to current law.



After widespread criticism from Democrats, students and editorial writers, the Majority finally agreed to reduce excessive subsidies to large lending institutions. But instead of recycling those dollars into low-interest loans and additional grants for students already struggling to pay for college, the Majority plans to use the \$14.3 billion in cuts—to lender subsidies and student aid—to pay for new tax cuts for the super rich. They believed for years it was acceptable to spend billions in excessive subsidies on profitable banks, but now they refuse to spend this money on students.

The Majority claims that these cuts must be made in the budget reconciliation process to reduce the federal deficit—yet with the new tax cuts for the super rich the budget reconciliation actually increases the federal deficit by \$20 billion over 5 years.

This budget scheme forces low- and middle-income students and families, who are already struggling to pay for college, to pay for new tax cuts for the super rich.



We should be doing more, not less, to increase affordable college opportunities not just because it is the right thing to do but because it is critical to the economic prosperity and well-being of our nation.

Since the passage of the Higher Education Act in 1965, Federal grants, loans and work-study have helped to send millions of students to college, many of whom would not have gone to college without the help.

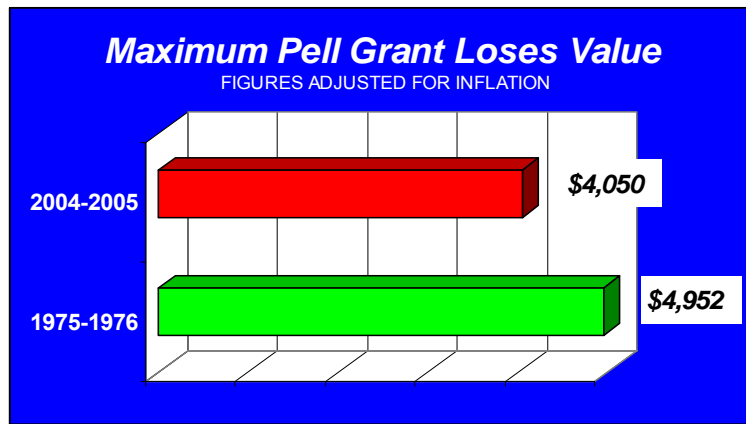
This investment has been critical in making the U.S. the world economic leader it is today. The Republican raid on student aid undermines America's competitiveness in the global economy.

Whether the U.S. retains its preeminence in the increasingly competitive global economy will depend more and more on having a highly-skilled workforce – and higher education is the critical tool for building that workforce. **By 2020, the U.S. is expected to experience a shortage of up to 12 million college-educated workers**, directly threatening the nation's ability to compete in the global economy.

This raid on student aid misses a golden opportunity to re-direct billions of dollars in savings by recycling the excessive subsidies paid to student lenders into additional grant aid for students—without any additional costs to taxpayers. Seizing this opportunity is an essential step towards ensuring that all college qualified students receive an affordable top quality higher education and that the U.S. is competitive in the global economy.

The Republican Bill Fails to Provide a Real Increase to the Maximum Pell Grant Scholarship

The declining buying power of Pell grant scholarships and rising tuition prices are forcing millions of students to assume high debt, work long hours or even forgo college. The Committee has missed another opportunity to restore the original buying power of Pell grant scholarships. **Last year the maximum Pell grant scholarship was worth \$900 less, in inflation-adjusted terms, than it was in 1975-76.**



Not only does the Republican bill fail to restore the Pell grants to the level of its original value, but it fails to make good on the Republican promise of an actual \$5,100 maximum Pell grant scholarship. **Instead, the Republican higher education plan freezes the actual maximum Pell grant award.** The bill only provides a \$200 increase to the maximum authorization level through 2013—a level that is not binding and does not determine the actual maximum award that students receive.

Democrats offered an amendment that would have provided a guaranteed boost, with mandatory funds, to a \$5,100 maximum Pell grant by 2010—without raising the deficit or raising costs on students or families. Republicans rejected this modest Pell grant scholarship increase.

In Addition, the Republican Bill Places Billions in Student Grant and Loan Funds at Risk by Eliminating the Delivery, or Administrative Funds, Used to Process and Disburse Federal Aid to Students and Families

In addition to the cuts to student and parent borrowers, the **Republican bill put billions of dollars in student aid at risk by cutting all of the critical funds used to carry out and administer the student aid programs.**

The Republican bill cuts all of the mandatory funds currently used to annually:

- Disburse \$117 billion in student aid grants and loans to nearly 10 million students and parents;
- Process more than 13 million federal financial aid applications;
- Oversee the participation of more than 6,200 schools, 3,500 lenders, dozens of guaranty agencies, accrediting agencies, and state agencies; and,
- Collect/manage \$105 billion in outstanding direct loans.

According to CBO, these cuts raise \$2.2 billion through 2010.

Republicans will argue that these \$2.2 billion in critical funds will now be funded through the appropriations process. But this is at best a budget gimmick and at worst a misguided budget trick that will destabilize student aid delivery for millions of students and families.

The Republican bill will force these critical student aid delivery funds to compete against funding for programs such as IDEA, No Child Left Behind and child care. It reneges on the promise that all students and families who seek student loans will be able to get them because it allows the program's administrative support to be limited or cut.

These cuts will jeopardize the Department of Education's ability to administer the student aid programs—which have a long history of fraud and abuse—safely and soundly.

The Republican Bill Requires Lenders to Rebate Billions in Excessive Student and Parent Interest Rates—But Instead of Giving Students and Parents Their Money Back, Republicans Use the Money to Pay for New Tax Cuts for the Super Rich

Under current law, banks in the guaranteed student loan program are guaranteed a fair market return when they lend to students and parents. This fair market return is calculated on a different basis than the interest rates that students and parents pay on their loans. Often the interest rates that student and parent borrowers pay to lenders are more than the fair market return. When this happens, lenders receive this windfall, or additional interest payments made by students and parents, as profit.

In 2004-2005, 9.7 million students borrowed federal education loans and more than 800,000 parents borrowed federal education parent loans.

Under current law, lenders keep this windfall profit. Yet, when student and parent borrower interest rates are such that they pay less than fair market return to lenders, the federal government pays lenders the difference to ensure that they receive fair market return on the loans.

The Republican bill changes current law, so that when lenders earn more than fair market return they must rebate these windfall profits, or excessive interest payments made by students and parents. While the Republican bill eliminates this 'lender yield floor', it fails to require the lenders to rebate these excess interest payments to the students and parent borrowers who are paying too much. **Instead, it funnels billions in excessive interest payments made by parents and students to pay for new tax cuts for the wealthiest households.**

According to the Congressional Budget Office analysis, these excess interest payments made by student and parent borrowers total several billion dollars through 2010.

The Republican Bill Closes the 9.5 Percent Loan Loophole

Last year, led by Reps. Kildee and Van Hollen, Congress voted to partially close the loophole which allowed student lenders to collect a guaranteed 9.5 percent rate of return on certain student loans. This rate of return is 4 percent higher (and was 6 percent higher last year) than the return which lenders receive on regular student loans. However, this partial closure still allowed lenders to "recycle," or use the interest payments and the excessive subsidies paid on their outstanding 9.5 percent loans to make new loans which also receive the 9.5 percent rate of return. The Government Accountability Office estimated that recycling alone is responsible for up to 40 percent of the current loan volume which is guaranteed this 9.5 percent rate of return.

At the urging of Committee Democrats, the Republican bill completely closes the 9.5 percent loophole which generated billions of dollars in excessive profits to lenders.

According to the Congressional Budget Office, the closure of this loophole will generate \$1.8 billion dollars in savings through 2010—money which should be reinvested into student aid. Unfortunately, the Majority is using these savings to pay for \$70 billion in new tax cuts, most of which go to the super rich.

Conclusion

American students and families need more affordable college opportunities. Significantly boosting these opportunities is critical to the success of the American economy and the nation's ability to maintain and grow our competitive edge in the global economy.

Not only does this bill fail on this account, but it actually makes the largest single cut to the student aid programs ever. As a result, students will be forced to pay thousands of dollars more for college.

This Republican raid on student aid squanders a rare chance to re-deploy billions of dollars, saved from cuts to excessive lender subsidies, toward boosting grant aid and lowering the cost of borrowing to students.

Rather than advance this partisan legislation, which is opposed by students, colleges, and consumer groups alike, we should be focused on increasing affordable college opportunities to all Americans.

The reauthorization of the Higher Education Act offered the Committee an opportunity to ensure college access to all Americans. Unfortunately, the Majority chose to pass up this golden opportunity and instead, is making college students and families pay for the irresponsible budget management of the Congress.

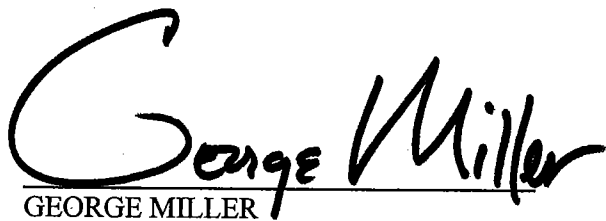
Democratic Amendments offered in Full Committee Markup of the Committee Print of Amendments to the Higher Education Act on the Committee's Instructions pursuant to the Conference Report on H. Con. Res. 95, the Budget Resolution for Fiscal Year 2006

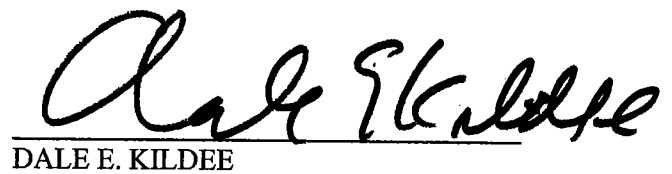
Mr. Miller, Mr. Kildee, Mr. Kind, Mr. Van Hollen, Mr. Barrow and Mr. Kucinich offered an amendment that would maintain Congress' promise to lower the student loan interest rate caps to 6.8 percent in 2006, offered student borrowers the choice of a variable or low fixed interest rate on their consolidation loans—without raising interest rates or fees, and provide a guaranteed boost to a \$5,100 maximum Pell grant scholarship. Republicans rejected the amendment.

Mr. Van Hollen offered an amendment to strike the provision that forces students to pay the 1 percent insurance fee (or \$1.5 billion more for their loans through 2010) on their student loans. Republicans rejected the amendment.

Mrs. Davis offered an amendment to reduce fees for student borrowers. The amendment was defeated.

Mr. Holt and Mr. Bishop offered an amendment to grant rebates to students who will have their Pell awards reduced or eliminated this fall, due to the recent student aid reduction from the Bush administration. Republicans rejected the amendment.


GEORGE MILLER

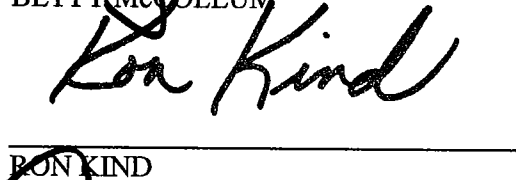

DALE E. KILDEE

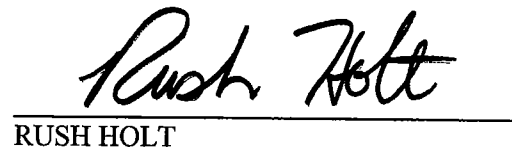

DANNY K. DAVIS

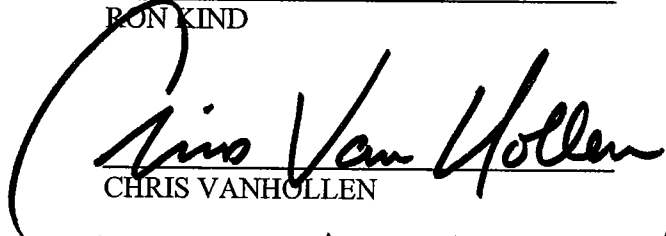

LYNN WOOLSEY


BETTY MCCOLLUM

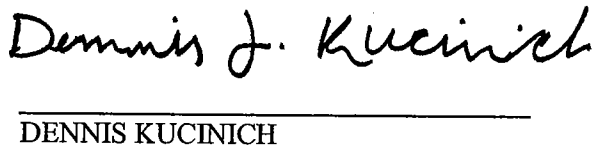

RAUL M. GRIJALVA

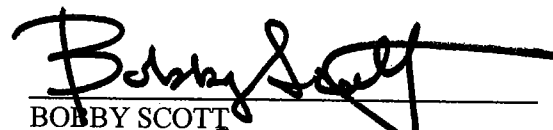

RON KIND

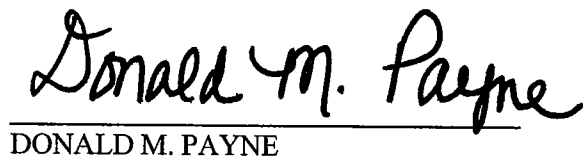

RUSH HOLT


CHRIS VANHOLLEN


CAROLYN MCCARTHY


DENNIS KUCINICH

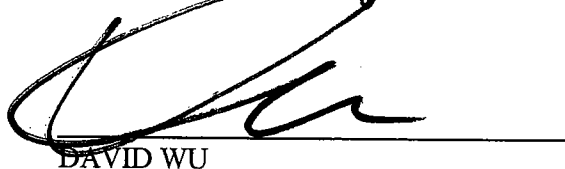

BOBBY SCOTT


DONALD M. PAYNE


TIM RYAN


RUBEN HINOJOSA


MAJOR OWENS


DAVID WU


TIM BISHOP


SUSAN A. DAVIS


ROBERT ANDREWS


JOHN F. TIERNEY